



by Les Mitchell

EFFECTIVE ACCOUNT RECEIVABLE

MANAGEMENT

Managing cash flow, especially related to credit and accounts receivable is extremely important to the success of most businesses in today's marketplace.

More businesses are expanding to include what has become referred to as 'in-house' financing. This has brought a new and most prosperous opportunity to many. This has also enabled many businesses to have a competitive edge over their competitors.

The extension of credit has become an essential part of the sales and services provided. Offering credit to customers has become a challenging duty for any credit department. A proactive set of procedures to manage credit approval and receivables is a necessity for any business.

Understanding the preventative measures that can be applied to accounts receivable management will not only lead to more effective control procedures in the administrative functions to increase recovery, but also to better collection processes that could result in increased revenue, thus reducing overall costs related to credit extended.

In today's market, extending credit has become more challenging and very competitive. There are greater pressures in such a fast-paced market to extend more credit. Understanding that this has simply become a way of doing business, it is imperative to understand how to manage this type of clientele to ensure effective recovery.

Awareness that today's clientele are vastly educated on credit practices and have a firm understanding on how to extend payables is vital. Training the staff to put priority on collecting accounts over 90 days past due, even though they only represent 10-25 percent of the overall receivables of most businesses, only creates a never-ending problem for any credit recovery success. What is effective however, is just the opposite.

Since the focus is only on accounts over 60 days past due, you are merely telling your receivable clientele that they automatically have 90-plus days to pay on their accounts. Unfortunately, this has a detrimental and reverse affect on the goals you worked so hard to obtain. By allowing your clients to pay 60 days plus past due on their accounts, it is a fact that as many as 50 percent or more of these clients will go over 90 days a second time, most likely resulting in a habitual routine of past due payments. Eventually these 90-day past due accounts will require assignment to a bailiff or third-party collection agency for recovery, usually too little, too late.

Knowing what you know now, it would be exceptionally productive to create a procedure to manage the accounts receivable by ensuring all clientele are contacted once the account is due. By committing staff to a strict policy, you will also be able to manage billing errors or disputes effectively, therefore resulting in better customer service. A simple process to follow would be to ensure statements and/or invoices are sent in a timely manner. Assigning staff to follow up on account due dates along with accounts that are falling within 30-60 days past due will ensure less accounts become 90 days past due. Making certain this procedure is followed will also result in less accounts being assigned to a bailiff or third-party collection agency for recovery service. This preventative approach will significantly increase the effectiveness of your endeavours.

Decreasing the age of the accounts receivable is not the only financial benefit. This can also lead to increased recoveries and reduced costs related to managing the accounts. Lessening the administrative labour of the accounts can also affect costs in numerous other areas such as postage, office supplies, research costs, legal costs, locate services and bailiff or third-party collection fees. By managing these accounts in a more time-effective manner, you not only reduce costs and increase more timely recoveries, you will also be working the accounts at the most opportune time for recovery by ensuring that those accounts which exceed the maximum aging can be assigned to a bailiff or third-party collection agency, providing a further opportunity to maximize potential asset and or capital recovery with minimizing the costs related to handling.

Ensure that you have a timely and effective procedure in place to manage your accounts receivable portfolio. Understand this procedure is only effective if you adhere to the procedures you have set in place. Managing accounts receivable by effectively controlling the aging of these accounts is essential. For success handling your accounts effectively, make certain to release the accounts to the bailiff or third-party collection agency when you should, for the recovery process. Be sure to review your current procedures and make the necessary changes to provide your clientele with the communication they require.

Les Mitchell, vice president of Wolfco.Bailiffs, specializes in a wide range of solutions that assist with locating and recovering assets or funds. Mitchell has been in the repossession and collection industry since 1991 and possesses a wide scope of experience in this field.

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